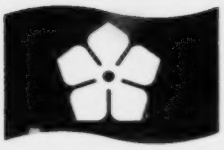

BRITISH COLUMBIA FERRY CORPORATION

Service Plan

2002/03 – 2004/05

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I. OVERVIEW OF THE ORGANIZATION

The province of British Columbia is uniquely defined by its coastal communities, ecologies and industries. The British Columbia Ferry Corporation (BC Ferries) services these unique coastal communities from Prince Rupert, the Queen Charlotte Islands and in the remote northern regions of the Province to the more populous centres of Victoria and Vancouver. Within this geography, the Corporation provides service on 25 regular routes and 11 contracted routes, with sailing times ranging from 10 minutes to 15 hours. BC Ferries transports an average of 60,000 passengers and 900 commercial vehicles on more than 500 sailings per day. The system carried 21.4 million customers in 2000/01 making it an integral part of the Province's transportation network.

From its genesis as a "highway equivalent" link between Victoria and the Lower Mainland, the service has evolved and now plays a pivotal role in meeting the public interests of mobility, access, economic development and environmental protection.

BC Ferries' services are supported by 40 vessels, 47 terminals (comprising 67 berths), four maintenance yards, one refit complex and head office. BC Ferries personnel perform everything from translation services to emergency medical evacuations, they transport dangerous goods and unaccompanied children, they ensure the safety of passengers on-board and they provide marine assistance in the event of an emergency.

In addition to ferry transportation, BC Ferries has a number of other business segments including:

- Providing food and beverage services with total annual sales of $45 million.
- Operating eighteen gift shops throughout the Corporation and three terminal news stands that generate an additional $13.1 million in annual revenue.
- Video/vending revenues generate $3.5 million annually, and,
- Parking, reservations and other sales generate an additional $11.9 million in revenue.

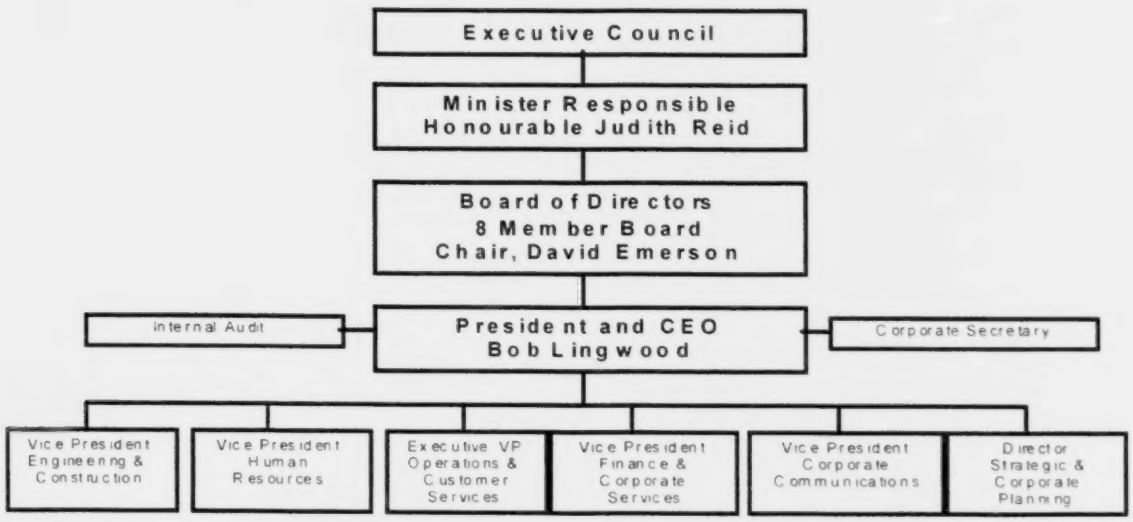
Over the past 2 years, BC Ferries has begun to change the way in which it delivers service in order to meet market demand while continuing to improve operational efficiency, provide for asset renewal, continue to meet changing environmental regulations and retain and grow the customer base.

The 2002/03 Service Plan has been developed around the parameters of this new direction.

BC Ferries is also working with the Provincial Core Services Review Task Force. At this stage, no decisions have been taken, but options are being considered that address both governance and service delivery. This three year plan does not attempt to prejudge any decisions from the Core Services Review and therefore, reflects the status quo governance structure and the current direction of products and services.

The direction of the Corporation continues to focus on improving operational efficiency and service reliability, increasing revenues through improving customer relations, reducing the environmental impact and continuing to improve efficiency.

Organizational Structure



Governance

The President and Chief Executive Officer of BC Ferries reports to the Board of Directors, the Board reports to the Minister of Transportation and, through the Minister, to the Executive Council.

The Ferry Corporation Act is the governing legislation for BC Ferries. Passed in 1977, the Ferry Corporation Act details the governance and accountability structure for the Corporation and for Government:

The Corporation has the power to:

- establish , operate, administer and maintain a ferry shipping and related service, or to engage in any other business or undertaking necessary or incidental to the operation of a ferry, and,
- to undertake construction and reconstruction of ferries or terminals

The Provincial Government is responsible for:

- Appointing the Board of Directors
- Approving the addition or deletion of ferry routes or shipping services
- Approving fares, tolls and other charges for the use of the ferry, shipping and other related services
- Approving the sale or other disposal of ferries and terminals
- Authorizing investments by the corporation.

II. STRATEGIC CONTEXT - MISSION

AT BC FERRIES WE ARE COMMITTED TO SATISFYING CUSTOMER AND COMMUNITY NEEDS FOR A SAFE, RELIABLE AND SUSTAINABLE FERRY SERVICE.

WE STRIVE TO BUILD ON OUR TRADITION OF EXCELLENCE IN FERRY SERVICE, ONE IN WHICH EMPLOYEES AND CITIZENS TAKE GREAT PRIDE.

III. PLANNING CONTEXT

At the most basic level ferry service can be defined as transportation links with a mandate similar to roads to provide access in support of commerce, education, health services and quality of life. Tariff and service levels are inextricably linked to access in serving the public interest of the coastal communities and the residents of BC.

BC Ferries, in delivering this service, must be cognizant of the local, national and international environments and how these factors may impact the ability of the Corporation to deliver its service. The following section describes important factors influencing the Corporation and its services over the next three years.

Core Services Review

The Government of British Columbia announced a Core Services Review process designed to examine all provincial programs, activities and business units. The objective of Core Services Review is to identify and confirm the BC Government's core roles and responsibilities and to ensure that government's limited resources are focused on these areas.

Each agency, including BC Ferries has been asked to review all programs, activities and business units. BC Ferries is currently progressing through this process. This 2002/03 Service Plan is based on the status quo and does not attempt to prejudge decisions which may result from the review.

Review of BC Ferry Corporation and Alternative Uses for the Fast Ferries (The Wright Report)

On August 29 2001, the Provincial Government announced that an independent inquiry into the fast ferry project and the BC Ferry Corporation would be undertaken.

The review was led by business and financial consultant Fred Wright and was completed and released publicly in December 2001. The recommendations contained in that report are being considered within the context of the work and presentation being undertaken for the Core Services Review Task Force.

Terrorism
In light of the terrorist incidents that occurred on September 11, 2001, BC Ferries, is cognizant of its risk as a potential target, albeit a low risk.

In consultation with the RCMP, BC Ferries' risk/threat level was assessed and will continue to be assessed as international and/or national issues are identified. In response to the initial assessment, the Corporation has refined its corporate security response plan by revising or enhancing particular procedures. Changes to existing security procedures will continue to be incorporated into operational activities as issues are identified or in response to information received from the RCMP.

Economic Uncertainty and Traffic Forecasts
There are a number of factors that influence the Corporation's traffic including the September 11 attacks in the United States. The Corporation did see a substantial decline in bus traffic, particularly on Route 1 (Swartz Bay – Tsawwassen) and has yet to recover that traffic segment. Overall, year to date vehicle traffic has increased 2.7 per cent and growth remains above forecast for the 2001/02 fiscal year, although bus traffic is unlikely to recover in the short term.

Other factors that influence the Corporation's traffic projections are the provincial economic projections. For 2002/03 the Province's economic forecasts are reflecting the global outlook and are projecting low growth.

BC Ferries' forecasting methods (using both time series and regression models) takes all of these factors into consideration and is projecting a 1.2 per cent growth overall in traffic over the next year.

Strategic Issues

<u>Need to Replace Assets</u>

BC Ferries services are supported by 40 vessels, 47 service terminals, four maintenance yards, one refit complex and head office. Last year the Corporation undertook a comprehensive review of its existing capital stock,

previous investments, services and service areas to determine the capital requirements to sustain its services. This analysis yields the following conclusions:

- BC Ferries' assets are concentrated in vessels and terminals;
- The vessels are in a disproportionately aged condition. The average age of the BC Ferries' fleet is 28.3 years. When using 40 years as the economic life of a vessel, three quarters of the vessels (30 of 40) are in the last half of their expected lives;
- Approximately 39 per cent of the vehicle capacity of the vessels are in the last quartile of their economic life;
- The terminal marine structures are in a disproportionately aged condition. Three quarters of all marine structures are beyond the midway point of their economic lives. Approximately 21 per cent of the assets and 34 per cent of their associated value are operating beyond their projected economic lives, and;
- The terminal shore structures are in relatively newer condition, with approximately three-quarters still in the first half of their economic lives.

Information Systems

Similar to other assets within the Corporation, technical and information systems infrastructure is in a disproportionately aged condition. Much of the existing infrastructure is at, or is nearing, obsolescence.

BC Ferries has identified the replacement of old technology as a priority and, over the past 2 years, has allocated significant resources to upgrading and replacing information systems. This intensive program to revitalize the IT area has begun to assist in improving access to information to ensure effective decision-making.

Over the next three years, the BC Ferries will continue to replace obsolete information systems with reliable systems that better meet the Corporation's operational and information management needs.

Impact of New Federal Regulations

BC Ferries is currently in discussions with Transport Canada regarding changes to Transport Canada regulations. Transport Canada is contemplating changes that may impact the way the Corporation delivers its service as well as impact its capital requirements and capital and operating costs of new assets. For this reason, BC Ferries has identified these discussions as a priority.

The objective of BC Ferries' involvement is to work with Transport Canada in order to improve safety while ensuring the most efficient use of modern safety systems and improved technology. It is anticipated that modern safety systems will have the added benefit of ultimately reducing costs.

IV. GOALS AND STRATEGIES

BC Ferries will provide service on 25 regular routes and meet the needs of more remote communities through its contracted services. It is projected that 21.5 million passengers and 8.1 million vehicles will travel on BC Ferries' vessels in 2002/03, making this a fundamental component of the provincial transportation system.

The four goals identified in this plan reflect the Corporation's commitment to continually improving these services. This will be completed through operational efficiencies, increasing customer value, minimizing our environmental impact all within a financial framework.

Over three years, BC Ferries will strive to refine these strategies in an effort to reduce costs and grow revenues. This will require the Corporation to work to improve operational efficiency and service reliability, to increase revenues through improved customer relations, to reduce our environmental impact through new technology and capital upgrades and to use the knowledge of the private sector to become more efficient.

A. Goal 1 – Increasing Customer Value

Know and understand our customers and respond to their needs with products and service delivery methods based on customer research.

The basic tenets of a Customer Relationship strategy are to understand the needs of our customers and to deliver products and services that meet those needs. While the tenet may be straightforward, in practice a sophisticated approach is required, both in understanding the customer's needs and in delivering the products and services.

The Customer Relationship strategy therefore includes several initiatives: developing an understanding of our customers through market research and web development; providing information tools to assist the customer in their decision making whether they are at home, driving to a terminal or in the terminal compound; and continuing to improve on products and services, everything from transportation services to catering. These initiatives are all designed to provide exceptional service to meet and exceed our customer's expectations.

This section illustrates the various programs and initiatives underway in support of increasing customer value.

Understanding Our Customers

The cornerstone of any customer relationship program is the ability to understand the issues that are important to customers. For this reason, BC Ferries has increased its market research efforts to develop and improve products which add to the customer's experience and generate net income for the Corporation.

Market Research

Over the next year, BC Ferries will introduce a customer service tracking monitor. The purpose of developing a market research baseline of our customers is to increase our understanding of a ferry user. Creating an informed profile of our customer will assist the Corporation in the design and development of ships and terminals, service performance, corporate standards, operational procedures and systems design.

Public Consultation

Since 1993, BC Ferries has consulted regularly with ferry dependent communities. Over the next three years, BC Ferries will continue to consult with ferry dependent communities, Coastal Council and interest based groups (tourism, trucking associations etc) on specific topics relating to their concerns and specific initiatives introduced by the Corporation.

Providing Information

Internet and Web Development

Intelligent use of technology is a key component of any customer-focused strategy. It supports management and front line employees in their efforts to deliver sustained high quality service and provides customers with the information they require to make informed decisions. It has also been used to support the introduction of internet reservations, which generates over $1.8 million in e-commerce annually. The BC Ferries' site is one of the busiest web sites in BC with 145 million hits annually and 1.1 million unique hosts.

Over the next year, a complete rebuild of www.bcferries.com is planned that will include a more efficient system. All of this will provide a direct benefit to our customers allowing for up-to-date information and enhanced site accessibility.

Signage Program

Product and service information delivery will be a high priority in 2002/03 as the Corporation focuses on providing timely information to our customers. Directional information signage has not always been consistent or clear.

Over the past year, the Corporation has been developing a functional wayfinding and messaging program. This program will establish a corporate standard to guide customers to and through BC Ferries' terminals and vessels as well as communicate with them on sailing status, product offerings and other customer related issues. Included in the overall initiative will be highway and municipal road approaches, ticket booths, vehicle holding areas, foot passenger and passenger amenities and baggage and ground transportation areas.

For 2002/03 a new signage program will be introduced at both Horseshoe Bay and Departure Bay.

Reservations

Since 1997 major route reservations have been available to our customers. For a $15 fee, customers are able to make passenger vehicle reservations on sailings between Vancouver Island and the Lower Mainland. In 2001/02 approximately 330,000 reservations were booked on major routes. Demand has increased nearly six fold since inception and is BC Ferries' fastest growing revenue source.

Over the next year, BC Ferries will concentrate on enhancing the value to our customers through reservations. By improving access to reservations, lowering costs of distribution, refining pricing strategies and expanding reservable capacity on major routes BC Ferries will generate a further $500,000 per year which represents an increase of about 20 per cent over the 2001/02 budget.

Meeting the Needs of Customers

On-time Performance

On-time performance is a priority to BC Ferries' customers. Over 2001/02 BC Ferries has started to examine regional and route based on-time performance in order to determine to what extent sailing delays are the result of mechanical issues, operational circumstances or weather.

For 2002/03, the Corporation will develop an operational review plan that analyzes this information in order to assist the Corporation in determining the actions that are necessary to address these issues.

Service Recovery

For 2002/03, BC Ferries will be implementing a service recovery program, developed in 2001/02. The principle of the program is to correct the impact of service failures on customers and permit them to complete their travel with the least possible inconvenience.

Food Services

The food experience is directly linked to the broader travel experience with BC Ferries and efforts to enhance the variety and quality of food services will continue, further increasing customer satisfaction and financial performance.

In 2001, BC Ferries expanded its White Spot initiative (initially it was only on the Spirit vessels) by rolling out the program on the *Queen of Cowichan* and the *Queen of Oak Bay* on Route 2 (Horseshoe Bay – Nanaimo). Burger sales on the Route have increased by 65% with the White Spot initiative.

For 2002/03 BC Ferries will continue to expand the White Spot program to the *Queen of New Westminster* and the *Queen of Alberni* (operating on Route 30 between Nanaimo and Tsawwassen), and the *Queen of Surrey* (operating on Route 3 between Horseshoe Bay and Langdale).

In addition to improving revenues on the vessels, terminal food services will also be addressed to ensure greater consistency in product offerings and to improve the customer experience.

Safety

Safety of Passengers

BC Ferries continually re-examines risks concerning the safety of passengers, crew, vessels and the environment. As part of this risk management initiative, in 1996 BC Ferries voluntarily adopted the International Safety Management Code (ISM) of the International Maritime Organization for the safe operation of ships and for pollution prevention.

The ISM certification requires regular auditing of all vessels and terminals by BC Ferries and Lloyds Register (the Corporation's external ISM auditors).

Transport Canada Regulatory Changes

BC Ferries is currently in discussions with Transport Canada regarding changes to Transport Canada regulations. The objective of BC Ferries' involvement is to work with Transport Canada in order to improve safety while ensuring the most efficient use of modern safety systems and improved technology. The planned changes include:

- Canada Shipping Act Reform - Over the past 4 years, Transport Canada (TC), the Department of Fisheries and Oceans (DFO) and Canadian Coast Guard (CCG) have been working on reform of the Canada Shipping Act (CSA) 2001. The amendments to the regulations are the result of changes in the International Maritime Organization (IMO) standards. The IMO establishes International Conventions and Standards for the marine industry. Once adopted by international conferences, IMO conventions provide the means for international uniformity.

- 1997 Regulations - BC Ferries is engaged in consultation with TC regarding changes to regulations adopted in 1997. The issues currently under discussion include:

    - Crewing Levels - BC Ferries is working with TC to standardize the methodology for determining crewing levels for its vehicle and passenger ships and thus eliminate a great degree of regulatory uncertainty. In the past, TC has not provided a definitive methodology to determine crew levels in advance of a vessel modification or construction of a new vessel. It is essential that

crewing be known prior to tendering in order to calculate operating costs and ensure a viable business case.

- Marine Evacuation Systems – BC Ferries is working with TC to establish a method for determining the passenger evacuation rate for all approved Marine Evacuation Systems. Again, this will assist BC Ferries' vessel modification and new vessel construction program by providing, in advance, a consistent formula for determining the evacuation system required. Moreover, it will allow decisions to be taken around major modifications and new builds with some certainty of the passenger carrying capacity as well as crew size.
- Damaged Ship Stability Regulations - BC Ferries and the Canadian Ferry Operators Association are working with TC on the finalization of Damaged Ship Stability Regulations. As currently proposed, the anticipated regulations would impact the *Queen of Prince Rupert*, the *Queen of Chilliwack* and the *Queen of the North*.

B. Goal 2 – Maintaining Financial Performance

The Corporation will operate at break-even or better with average tariff increases no greater than inflation.

Based on the financial framework established in March 2000, BC Ferries has developed long term strategies that allow the Corporation to provide cost-effective ferry services and replace capital assets in a financially responsible manner. The parameters of this framework require BC Ferries to break-even or generate a surplus in each year of operation.

For 2002/03, BC Ferries has budgeted for a positive net income of $15.6 million, whereas 2001/02 budget was $2.5 million. The surplus between these year over year budgets relate to:

- an increase in traffic and ridership,
- an increase in catering sales and a tariff increase assumed for the purposes of this analysis to be at the projected rate of inflation as at December 1, 2002, and,
- reductions in the price of fuel and labour efficiencies.

Three Year Projection

BRITISH COLUMBIA FERRY CORPORATION
INCOME STATEMENT PROJECTION
CORPORATE TOTALS
($ thousands)

	Actual	Budget	Forecast	Projected	Projected	Projected
OPERATING REVENUES:	**2000/01**	**2001/02**		**2002/03**	**2003/04**	**2004/05**
Tariff	292,806	300,100	304,000	310,200	320,780	329,155
Gross Catering Income	57,800	57,133	59,800	61,600	63,525	65,875
Other Income	10,900	9,853	10,500	11,910	13,090	13,800
Federal Operating Contract	22,438	22,730	23,000	23,320	23,905	24,455
	383,944	389,816	397,300	407,030	421,300	433,285
OPERATING EXPENSES:						
Wages & Salaries	227,000	237,512	238,000	240,075	241,030	247,890
Fuel	53,443	56,065	46,700	51,000	53,750	53,810
Repairs & Maintenance	34,575	34,486	40,700	35,600	33,205	33,265
Cost of Catering Goods Sold	21,915	21,622	22,200	23,550	24,135	24,915
Materials & Supplies	23,375	24,615	23,610	26,400	24,200	24,055
Other Expenses	35,736	32,139	33,850	36,100	35,990	36,815
Contingency		2,500		2,450	2,500	2,500
	396,044	408,939	405,060	415,175	414,810	423,250
INCOME/(LOSS) BEFORE INTEREST & AMORTIZATION:	**(12,100)**	**(19,123)**	**(7,760)**	**(8,145)**	**6,490**	**10,035**
Net Financing Expense	(312)	2,118	700	500	250	250
Amortization	50,029	50,000	46,900	49,600	57,575	66,800
CFI Operating Loss			700			
INCOME/(LOSS) BEFORE PROVINCIAL CONTRIBUTION:	**(61,817)**	**(71,241)**	**(56,060)**	**(58,245)**	**(51,335)**	**(57,015)**
Motor Fuel Tax	72,519	73,700	73,200	73,850	75,950	78,050
INCOME/(LOSS) AFTER PROVINCIAL CONTRIBUTION:	**10,702**	**2,459**	**17,140**	**15,605**	**24,615**	**21,035**

CUMULATIVE INCOME/(LOSS)		17,140	32,745	57,360	78,395
CAPITAL EXPENDITURES		68,085	102,925	187,366	163,781
Net Debt (exclude leases)		15,106	55,752	44,115	123,530
NET DEBT (include leases)	21,368	33,786	71,506	56,683	132,630

* NOTE: Year 2003/04 assumes the sale of the PacifiCats.

3 Year Operating Overview

Revenues

Over the three years, vehicle tariff growth is projected at 1.2% in year one and 1.4% in years two and three which directly correlates to increases in tariff revenue. Catering revenues continue to trend upwards driven by branding and retail initiatives and improvements to ship and terminal facilities that will be detailed subsequently in Goal 3. Generally all other revenue sources are expected to increase at the rate of inflation except for revenue generated from reservations which is projected to increase about 20 per cent over the 2001/02 budget.

Expenditures

Wages are expected to increase annually at inflation with efficiencies to offset these increases estimated at $4.6 million over the three years. The price of fuel is projected to be $0.385 in 2003 and adjusted to $0.41 per litre for the remaining years. All other expenditures are projected to increase at inflation, again with specific efficiencies that offset the inflationary increases.

Debt

BC Ferries is expected to carry $71.5 million in debt for fiscal 2002/03. By 2004/05, the Corporation will carry approximately $132.6 million in debt and will require significant funds in 2003/04 to meet the requirements of the capital plan. To ensure the ability of the Corporation to renew and replace its asset base, BC Ferries will look to private sector involvement by way of public/private partnerships.

Risks

The risks associated with the financial performance of the Corporation include the following:

- Forecasted traffic projections are realized (principally economic and population trends influence traffic)
- World fuel price stability;
- Refit and maintenance costs for aging ships;
- The ability of the Province to borrow on behalf of BC Ferries for its capital program; and,
- The tariff change is implemented on schedule in December 2002.

C. Goal 3 – Improving Operational Performance

In reviewing the business environment, BC Ferries continually looks to strengthening and improving the operating performance. In light of this, the concept of improving the delivery of service in order to strengthen the financial position is a priority. To do this, the Corporation has identified a number of specific opportunities.

In fiscal year 2002/03, the Corporation will be looking to operational efficiencies, a comprehensive capital program that will reduce operating costs by replacing vessels with larger, standardized vessels and implementing an effective fleet management strategy. The Corporation will also continue with Information Systems upgrades as well as business process improvements.

All of these initiatives will assist the Corporation in meeting its identified goals.

Operational Efficiencies

Support local economies and communities
Provide basic transportation options to remote coastal communities.

Mid and North Coast Routes

For the regions currently receiving ferry service, service levels are projected to remain unchanged except for the northern routes.

There are three main routes operated by BC Ferries in the north and mid-coast of the Province. These are the Inside Passage – Route 10 (Port Hardy – Prince Rupert), Route 11 (Prince Rupert – Queen Charlotte Islands) and the Discovery Coast – Route 40 (Port Hardy – Mid-Coast). The toll revenue for this segment of the business totaled $16.4 million in 2000/01.

The issues that have dictated the need for a re-evaluation of the mid and north coast service include:

- The capital infrastructure required to support the current level of service. Transport Canada is currently amending a number of regulations.

Depending on these final changes, the Corporation could face significant increases in capital and operating costs.

- The under-performance of Route 40 (Port Hardy to the mid-coast). Route 40 was initiated in 1996 in order to increase tourism along the mid-coast of the Province. The route was initiated, in large part, on the basis that it would be financially sustainable within a three year period. In retrospect, the projections were optimistic. Consequently, the route has not achieved its target, and Route 40 continues to perform below financial expectations with a net loss of $1.2 million over the twelve weeks of service.

- The refit costs of the *Queen of Chilliwack*. The operating losses of Route 40 will be exacerbated by significant refit and maintenance costs projected to be about $3 million after the summer 2002.

The Corporation will work with the communities to develop a service model that considers both access issues and the financial implications of the service. After this consultation with the north and mid-coast communities, the Corporation will complete the analysis and take a decision in early 2002/03.

Ferry Service to Kincolith

BC Ferries contracts for ferry service on routes serving several remote coastal communities without road access. One of these contracted services is to Kincolith, a First Nation community situated north of Prince Rupert in the Nass Valley.

In 2000, the Provincial Government and the Nisg'a First Nations signed an agreement called "Kincolith Extension Development Agreement". One of the elements of the Agreement was that the Provincial and Federal Governments would build a road from Greenville to Kincolith to provide access to this remote community. However, the terms of the Agreement also state that once the road is substantially complete, the ferry subsidy will be discontinued.

It is expected that the road will be substantially complete in the fall of 2002 leading to the end of the subsidy and involvement by BC Ferries in this route.

Service Over the Next Three Years

Accommodate growth through vessel replacement and terminal improvements.

Service will stay substantially the same for fiscal 2002/03. Service after 2002/03 is subject to the implementation of changes to the north and mid-coast services.

In addition, as new vessels begin to replace older vessels, the Corporation will improve efficiencies. Replacement vessels will be larger and therefore will have greater capacity while maintaining a similar cost base.

Capital

The long term capital strategy for the Corporation is to replace and upgrade aging infrastructure with emphasis on alternatives that improve efficiency, reduce life-cycle costs, minimize environmental impacts and improve customer service.

As stated earlier, the primary capital issues facing the Corporation are its aging vessels and marine structures. The focus of the Corporation's asset replacement strategy is to incorporate standardization, operating efficiencies and fuel efficiency while ensuring the vessel provides improved customer value.

A limited range of standardized vessels will allow the Corporation to move ships onto various routes over the life of the vessel, allowing for the replacement of older less efficient vessels. From a maintenance perspective, standardization will provide for common maintenance standards, maintenance benchmarking and continuous improvement and bulk purchasing of components thereby reducing costs.

Over the 2002/03 fiscal year, the following major projects will be carried over from 2001/02.

Horseshoe Bay Terminal Upgrade

BC Ferries' improvement of the Horseshoe Bay terminal will be completed in 2002/03. There were a number of factors identified by BC Ferries that were considered in the decision to undertake the work in Horseshoe Bay

including factors that aligned with the long term needs for the Corporation. They include:

- Improving public safety on all highway approaches;
- Providing for better vehicle and foot passenger handling;
- Reducing operational costs (by eliminating traffic management costs);
- Improving customer service and on-time sailing performance by increasing the speed of vessel loading;
- Reducing parking congestion in Horseshoe Bay; and,
- Replacing obsolete structures with a functional passenger and administration facility.

Departure Bay Terminal Upgrade

As in Horseshoe Bay, changes to Departure Bay will be completed in 2002/03 in order to align with BC Ferries' long term objectives of improving the customer experience, addressing future demand, reducing off-site roadway congestion and upgrading obsolete infrastructure.

New Ferry for Bowen Island Route

This new vessel forms the initial phase of the fleet replacement strategy which will permit the retirement of the *Queen of Chilliwack* and the *Queen of Tsawwassen*. The ship will assist with congestion and service issues for Bowen Island and provide a standard vessel which can be used on various routes over the course of its life. The Corporation is targeting delivery of the ship in 2003/04.

Queen of Prince Rupert

Over the last year, a detailed condition survey was completed on the *Queen of Prince Rupert*. The survey found that continuing to maintain the vessel was a poor investment, given the capital upgrades that would be required to bring it up to modern standards.

In addition to this large financial investment, the changes to Transport Canada damage stability regulations discussed previously, could force the retirement of the vessel earlier than the planned date of 2012.

As such, BC Ferries is developing plans to replace the vessel within 2 years. A used vessel is estimated to cost between $35 and $50 million, while a new vessel would cost not less than $70 million.

Queen of Coquitlam

The *Queen of Coquitlam* operates on Route 2 (Horseshoe Bay – Departure Bay). As part of the broader initiative to upgrade infrastructure and improve the customer experience, a mid-life renovation will be made to the *Queen of Coquitlam*. These changes are necessary to obtain the full economic life of the vessel.

The *Queen of Coquitlam* is expected to remain in service for the next 17 years, and market research indicates the renovation of the passenger accommodations will improve on-board sales. Construction is expected to begin in the Spring 2003.

This upgrade will serve as the prototype for five other vessels scheduled for mid-life refit over the next three years.

Revenue generated from passenger upgrades and branded partners can be anticipated to achieve $400,000 to $600,000 per year in incremental revenue for each ship.

Capital Projects Over the Next Three Years

In addition to continuing with capital projects from previous years, the Corporation will begin the following major capital projects over the next three years.

Replacement of the "V" Class Vessels

Over the past few years, BC Ferries completed condition assessments on 24 of our older vessels. In 2000, three more detailed surveys were completed on three V-Class vessels in order to provide the more specific information needed to assess remaining vessel life and potential for life extension. Third party naval architects and marine surveyors completed this work. This detailed survey work led the Corporation to conclude that it must commence replacement of its oldest (V-Class vessels) within 2 years (that is, commencing in fiscal 2003/04).

Over the next three years, BC Ferries will begin the analysis and development phase of replacing these three vessels. It is likely that the Corporation will build new ships to take advantage of the standardization program identified earlier.

Queen of Chilliwack

The *Queen of Chilliwack*, which serves on the Discovery Coast Passage (Route 40), is being considered for retirement after its 2002 summer season as opposed to the original date of 2004. The revised retirement date is due to the higher than anticipated expense of the planned 2003 refit. A used replacement vessel compliant with the proposed regulations is estimated to cost between $45 million and $50 million. During this season's twelve week service period, the route lost $1.2 million in comparison to its direct operating costs. Future losses would increase significantly with the added capital expense as outlined above.

Based on significant increase in maintenance (refit) costs for the *Queen of Chilliwack* and the potential impacts of new Transport Canada regulations, new service options and alternative delivery methods are under consideration.

After further consultation with the local north and mid-coast communities, the Corporation will complete the analysis leading to a decision in early 2002/03. The exact retirement date of this vessel is dependent on the final decision respecting the future of Route 40.

Dogwood Princess II Replacement

BC Ferries operates only one passenger-only service. This service operates between Gambier Island, Keats Island and Langdale on the Sunshine Coast. *Dogwood Princess II* is a 42 foot vessel carrying 38 passengers and 2 crew and was built in Victoria in 1979 to service these Islands.

Typically a vessel of this type would have a service life of 15 years. At 22 years, the *Dogwood Princess II* has already exceeded its expected service life. For 2002/03, the Corporation will begin to explore the options available for replacing this vessel.

Capital Plan Risks

The risks associated with implementing the capital plan include:

- The availability and cost of the used vessel market
- The bidding competitiveness for new vessels
- The difficulty of estimating upgrade costs on older ships, and,
- The ability of the Province to borrow on behalf of BC Ferries for its capital program.

Business Processes and Systems Upgrades

By investing in information systems upgrades and replacements, the Corporation's plan is to improve management information for decision making which leads to increases in operating efficiency.

As stated previously, the Corporation's technical and information systems infrastructure is in a disproportionately aged condition with much of the existing infrastructure at, or near, obsolescence. Over the past two years, the Corporation began to upgrade these systems. Over the next three years, the Corporation's program to renew/replace information systems and technology will continue with the following plan being implemented in 2002/03:

Human Resource Management System Replacement

Currently, 51% of total operating costs are in wages and benefits yet the Corporation's Human Resource tracking software is obsolete. For fiscal 2002/03, the Corporation plans to select, acquire and begin the implementation of a new Human Resources Management System (HRMS) to replace the existing system.

The HRMS system will provide the additional HR functionality required for effective people management and allow for re-engineering of the current HR business processes to reflect and embrace "best practices" in the HR function. In addition, HRMS will provide the strong HR foundation for the success of the other major system replacement, the Crew Scheduling/Time Collection project.

The HRMS project will be completed in two phases. The first phase involves selection of the appropriate HRMS software. The second phase involves implementation of the system both centrally and in all eight HR offices.

Phase I will be completed in fiscal 2002/03. The project is expected to be completed in October 2003.

Crew Scheduling/Time Collection Upgrade

Currently, the Corporation has a manual system to support crew scheduling. While these manual processes have achieved adequate short term scheduling results, automating many of these processes is needed to support effective long-range crew scheduling and planning and more accurate time collection for better resource management.

The scope of this project includes automating the areas of crew scheduling, leave management, and time collection through the implementation of an integrated software package.

During 2002/03, Phase I (feasibility and selection of the appropriate software package) will be completed. The project is expected to be complete by May 31, 2004.

Project Management

Success of the Corporation's long term capital plan within the context of the financial framework dictates that the associated capital projects be managed with considerable rigor, discipline and consistency in accordance with best project management practices. The Corporation will continue its initiative to upgrade project management skills, systems and reporting.

Information Systems Upgrades Over the Next Three Years

Catering Systems Consolidation

Currently, there are a number of systems that support the Food & Beverage and Retail Departments within the Corporation. These systems perform point of sale, inventory management, accounts payable and cost of sales accounting, revenue tracking and operational and management reporting functions.

The systems in the Food & Beverage and Retail Departments have been implemented individually over the last 10 years. Some of the key systems are now reaching the end of their service lives. Over the next three years, the Corporation will determine the replacement of this integrated technical infrastructure.

Human Resources

Over the long term, BC Ferries' Human Resource strategy is to ensure the continued sustainability of the Corporation and its business by attracting, retaining and developing high quality employees to ensure safety, service reliability and positive customer service.

Labour costs represent approximately 51 per cent of BC Ferries operating expenses. Ensuring the continued sustainability of the Corporation and its business requires a proactive approach to managing our people. There are a number of specific strategic human resource issues that will affect the Corporation over the long term.

Recruitment and succession provide the largest challenges in supporting a workforce of approximately 4,600 employees. As with most demographic profiles within the Province and Canada, BC Ferries' workforce is aging. Shortages are anticipated in several key areas including licensed officers, tradespersons and information technology.

To address these issues, BC Ferries has a number of strategies for 2002/03:

Training Initiatives

Programs are in place to support the development of the shortages identified including licensed marine officers in both Deck and Engineering. Succession needs have been identified for these positions, which require many years of education and experience to meet Canadian and international marine certification requirements.

In addition, Customer Relationship Management training programs are being introduced, which have been designed to enhance the Corporation's capacity to recognize, anticipate and respond to customer needs.

Workforce Development Accord

As part of the 2000 collective bargaining process, BC Ferries and the BC Ferry and Marine Workers' Union (BCFMWU) committed to work cooperatively to develop strategies around the future of the Corporation's workforce. While there are a number of significant issues, the two most critical issues will focus on:

- identifying options and recommendations regarding the current workforce structure that employs nearly 40% of union members as casual employees. Due to the cyclical nature of our business, nearly 40% of employees are casuals –1,860 employees at the summer peak. This is seen as a barrier to effective recruitment and retention; and
- recommending mechanisms to meet identified succession needs, particularly in highly specialized fields such as marine officers and trades personnel.

Union-Management Relations

Joint training is a key component in the strategy to improve Union-Management relations, with a continued focus on collaborative problem-solving in an environment of mutual respect. This includes a joint commitment to increasing productivity and reducing costs through initiatives such as gainsharing.

Management Development

Initiatives are underway that support the ongoing development and succession needs of the management group, including performance management.

The risks identified as part of the HR strategy include:

- the availability of relief personnel to allow for training and development,
- the willingness of employees to undertake development;
- the continued cooperative relationship with the Union

D. Goal 4 – Minimising Our Environmental Impact

BC Ferries has developed a comprehensive environmental strategy that reflects the continuously changing environmental landscape and the Corporation's commitment to the environment. The Corporation's strategy in support of the environment is three-fold and includes:

Water

To take a leadership role in the protection of the marine environment.

To support this, BC Ferries will continue with the sewage treatment upgrade systems for selected vessels and terminals. In fiscal 2002/03 systems that exceed all current treatment requirements will be installed on five more vessels bringing to 12 the total number of such installations. Further, the implementation plan for the remainder of the sewage treatment upgrade program into 2003/04 will be finalized during 2002/03.

Once this program is completed, BC Ferries will be able to demonstrate that its sewage treatment systems not only meet or exceed established regulations, but that overall improvements in effluent quality are being achieved.

Land

To minimize environmental impacts.

BC Ferries will develop and/or update a number of policies and procedures to ensure environmental issues are addressed in any new build/upgrade project within the Capital Program.

In fiscal 2001/02, BC Ferries undertook a complete pollution prevention review of all of its major waste streams. For 2002/03, further work is required to bring about opportunities to reduce solid waste and improve recycling.

Air

Systematically and progressively reduce green house gas emissions from vessels.

Major reductions in air emissions from ships can reasonably be achieved only through replacement of engines and, in new construction, through selection of fuel-efficient and environment-friendly engines. The engines for the new Bowen Island ferry will meet these requirements.

In support of longer term activities, BC Ferries is monitoring all methodologies and research in greenhouse gas and emissions reduction.

In addition to these specific programs and working within the context of the Corporation's Safety Management System, internal environmental audits of each vessel and shore facility will be undertaken to assess compliance with the Corporation's Environmental Management Program.

V. CORPORATE PERFORMANCE MEASURES

A. Linking Goals to Performance Measures

Goals	Related Performance Measures	Description
A. Increasing Customer Value	Productivity Measure 1c Catering Revenue per Catering Employee	This measure continues in an upward trend as new initiatives and improvements to facilities are rolled out that are targeted to improve the customer's overall satisfaction.
	All Customer Service Measures – 4a to 4c	By improving on-time performance and managing our scheduled services, BC Ferries' customers will be able to make informed decisions on sailing times and travel options, thereby increasing the satisfaction of the customer's travel experience.
B. Maintaining Financial Performance	All Productivity Measures – 1a to 1c	Productivity measures are directly related to maintaining financial performance. Various programs identified throughout this Service Plan will improve productivity including: the capital program, improving catering & retail products services, business processes etc.
	All Safety Measures – 2a to 2b	Improving workplace safety improves financial performance by reducing the costs of replacement for short and long term absences and WCB costs.
	All Human Resource Measures - 3	BC Ferries will improve the financial performance by reducing short and long term sick leave and disability costs.
	All Customer Service Measures – 4a to 4c	Increasing customer service will ultimately increase financial performance as more passengers travel more often while making more purchases.
C. Improving Operational Efficiency	All Productivity Measures – 1a to 1c	Productivity measures are directly related to improving operational efficiency. Various programs identified earlier will improve efficiency i.e: the capital program, business processes & specific HR strategies.
	All Safety Measures – 2a to 2b	Improving safety for the Corporation's employees will improve the efficiencies as there will be less of a requirement to find replacement employees for those on leave due to injury.
	All Human Resource Measures - 3	By reducing the rate of absenteeism, BC Ferries will improve efficiencies as there will be less of a requirement to find replacement employees for those on sick leave
D. Minimising Our Environmental Impact		The Corporation plans to reduce its environmental impact through the fleet replacement strategy that will see the retirement of older, less efficient vessels. This indirectly links to Productivity Measures 1b1 to 1b2.

B. 3 Year Projection Commencing 2002/03

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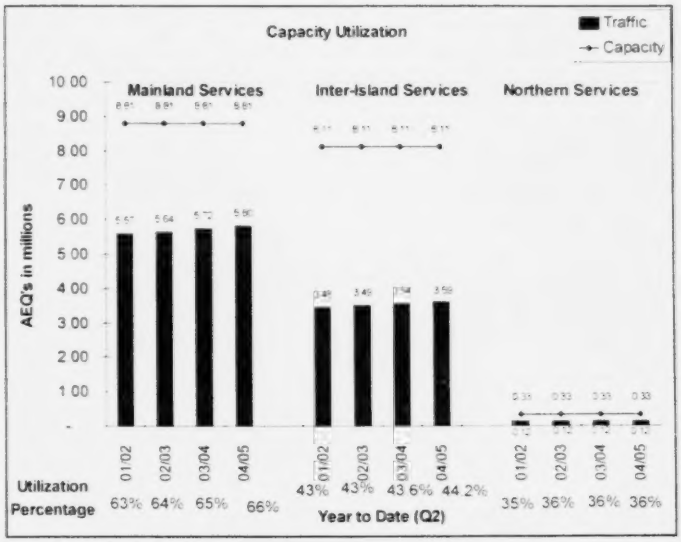
1. Productivity Measures

a. Vehicular Traffic Carried/Capacity Utilization

Rationale/Methodology: *To measure vehicular traffic carried (defined as automobile equivalents "AEQs") and measure against vehicular carrying capacity of the operational fleet. This will provide a measure of total vehicle capacity used. Total AEQs carried is divided by AEQ carrying capacity of the operating fleet in each of the three operating segments.*



3 Year Projection:

Mainland Services

The same ships will be used on these routes in the next three years while traffic is expected to rise by 1.2% in year 1 and 1.4% annually in years 2 and 3. The trend shows a slight improvement.

Inter-Island Services

The traffic is expected to increase at a rate of 1.2% in year 1 and 1.4% annually in years 2 and 3. Service will be provided by the same ships. As a result, the the capacity utilization will show a slight improvement.

Northern Services

Capacity utilization should remain virtually unchanged due to car deck utilization already being high in peak season.

1. Productivity Measures

b.1 Passengers Carried per Operations Employee (FTE)

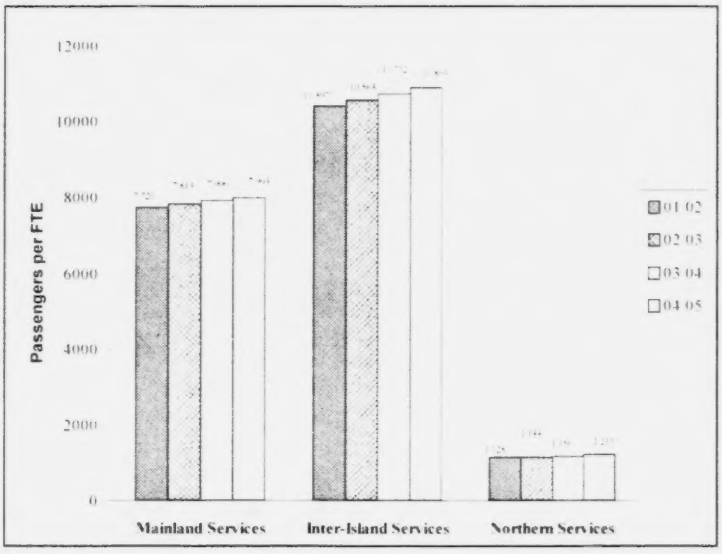
Rationale/Methodology : *To measure the productive utilization of labour resources.*

This measure is calculated by dividing the passengers carried by operating FTE's for each of the three operating segments.

3 Year Projection:

A 1.2% growth in passengers carried in Mainland Services is expected in year 1 and 2 and 1.1% for year 3. In Inter-Island Services a 1.6% growth is expected in year 1 and 2 and 1.5% in year 3. Northern Services is expected to have a similar small improvement.

Technology and management initiatives will improve productivity by over 3% over the three years.



1. Productivity Measures

b.2 Vehicles (AEQs) Carried per Operations Employee (FTE)

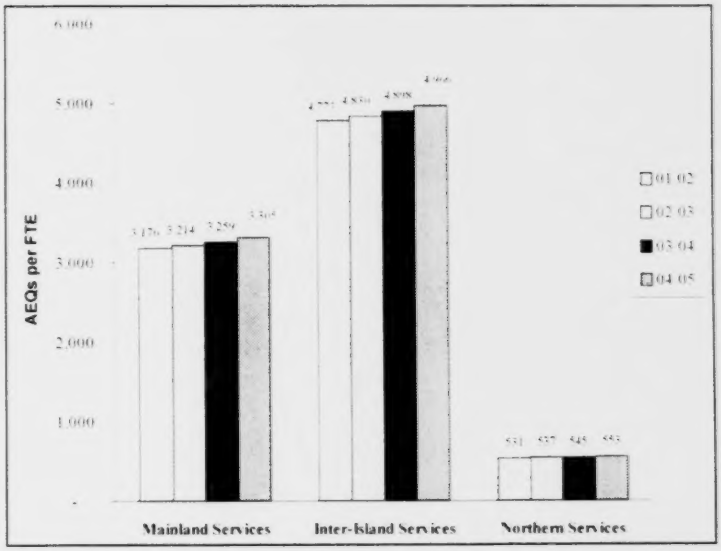
Rationale/Methodology: *To measure the productive utilization of labour resources.*

This measure is calculated by dividing the AEQ's carried by operating FTE's for each of the three operating segments.

3 Year Projection:

It is estimated that there will an annual rise in number of vehicles carried by 1.2% in year 1 and 1.4% in year 2 and 3 across all divisions.

Technology and management initiatives will improve productivity by over 3% over the three years.



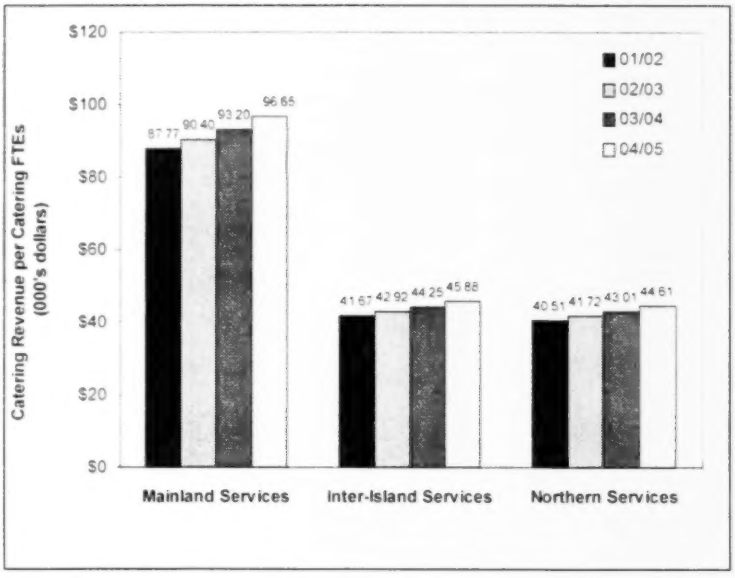
1. Productivity Measures

c. Catering Revenue per Catering Employee (FTE)

Rationale/Methodology: *To measure the effectiveness of management in utilizing labour resources. Total catering revenue does not include tolls, parking and other miscellaneous revenue or subsidies, and excludes cost of goods sold.*

3 Year Projection:

A continued upward trend in catering revenue is anticipated, about 3% in year 1 and 2, and rising to 3.7% in year 3, driven by branding and retail initiatives and improvements to facilities.



2. Safety Measures

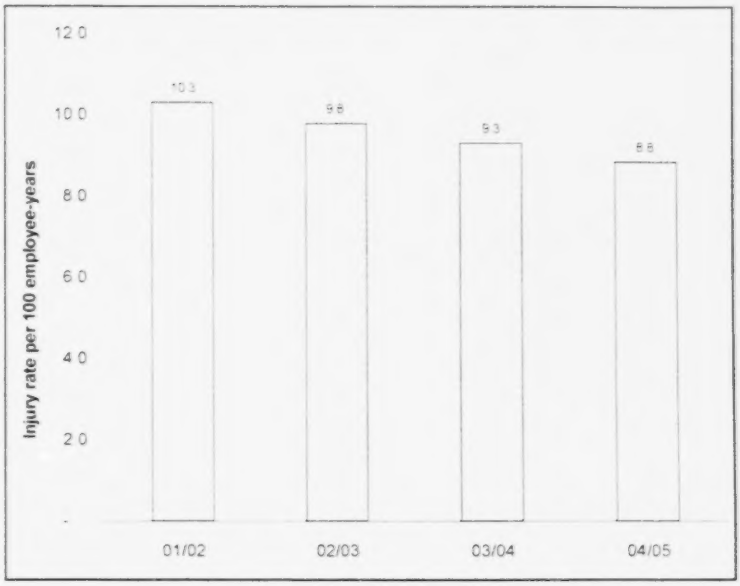
a. Employee Injury Rate

Rationale/Methodology: *To measure the effective use of safe work procedures and accident prevention programs.*

NOTE: this measure has been changed to injuries "per 100 employee-years" from "per 1 million- employee hours" (to be consistent with WCB reporting requirements).

3 Year Projection:

It is expected that the joint management/union/ WCB plan which will be ongoing for the next three years will reduce the Corporation's injury rate. Improvement targets are 5% annually.



2. Safety Measures

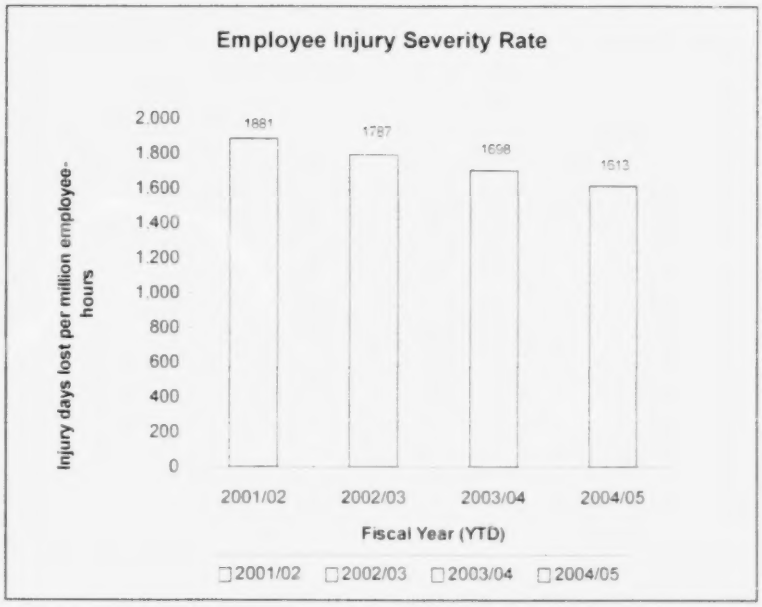
b. Employee Injury Severity Rate

Rationale/Methodology: *To measure the effective use of safe work procedures and return-to-work programs.*

This measure is a standard WCB reporting requirement and is calculated as the injury days lost per million employee hours during the reporting period.

3 Year Projection:

It is expected that the joint management/union/ WCB plan which will be ongoing for the next three years will reduce the Corporation's injury severity rate. Targets are 5% annually.



3. Human Resources Measures

a. Rate of Absenteeism - Sick Leave

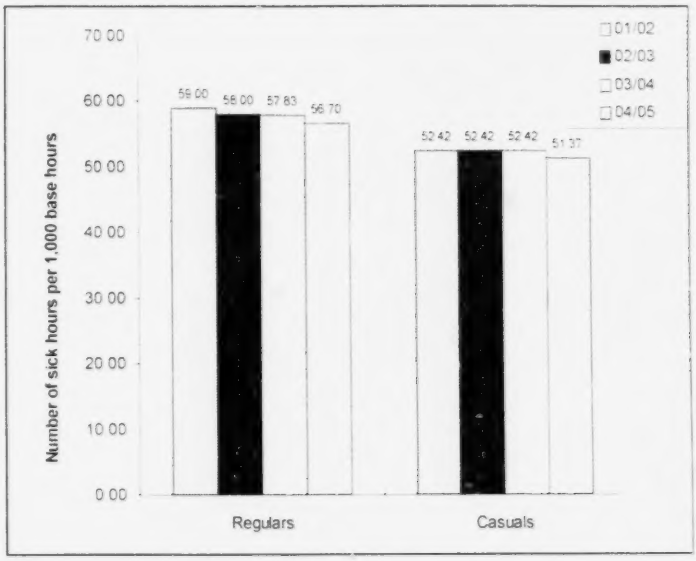
Rationale/Methodology: *To identify absenteeism trends. This measure is intended to track and understand absenteeism trends for regular and casual employees. Currently, short-term illness hours are calculated in this measure.*

This measure is calculated as the number of sick hours per 1000 labour productive hours of bargaining unit employees.

3 Year Projection:

For regular employees proactive management and joint union management programs will improve the rate of absenteeism over three years. In year 3 new technology and systems should reinforce this trend.

Casual sick leave, which rose sharply when sick benefits were extended to casual employees in 1998 is expected to level off and then decrease in the 3rd year with the impact of improved Human Resource and Crewing systems to assist attendance management.



4. Customer Services Measures

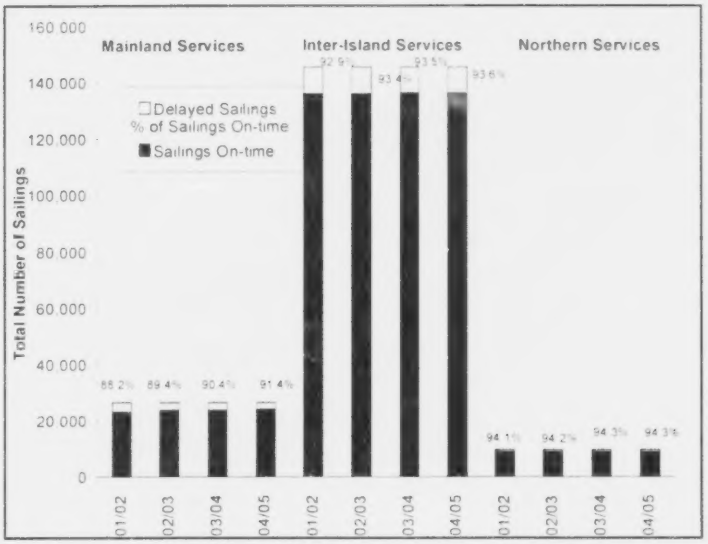
a. On-time Sailing Performance

Rationale/Methodology: *To measure the number of sailings departing within 20 minutes of schedule. This measures the number of times during the reporting period that a departure was made within 20 minutes of scheduled departure. This is expressed as a percentage of the total number of sailings.*

3 Year Projection:

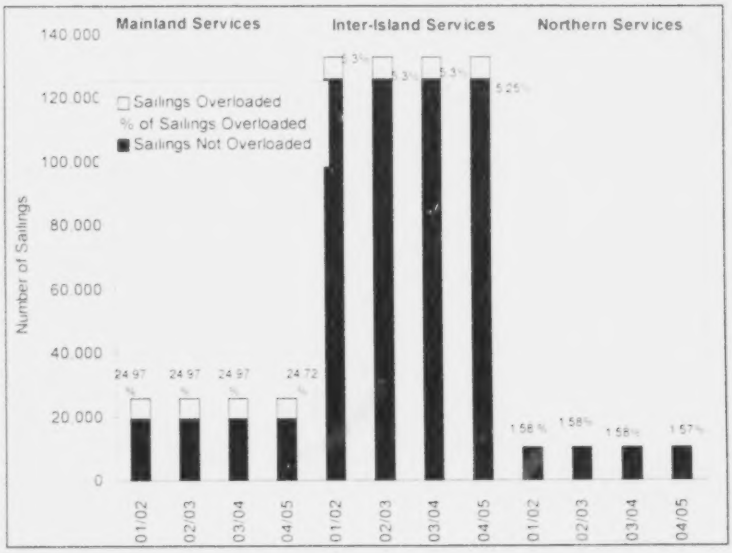
This measure should improve in the next 3 years, due to terminal improvements at Horseshoe Bay and Nanaimo and a management initiative to improve vessel turn-around times and on-time performance. Manageable delays on Mainland Services routes will improve by 10% in each year (about 50% of delayed sailings are caused by weather, emergencies, etc and cannot be managed).

Over the 3 years, sailings delayed longer than 20 minutes will be reduced from 3000 each year to about 2250.



4. Customer Services Measures

b. Overload Sailings



Rationale/Methodology: *To measure the Corporation's success (i.e. anticipating load requirements and making maximum use of load space) in matching customer demands with scheduled service.*

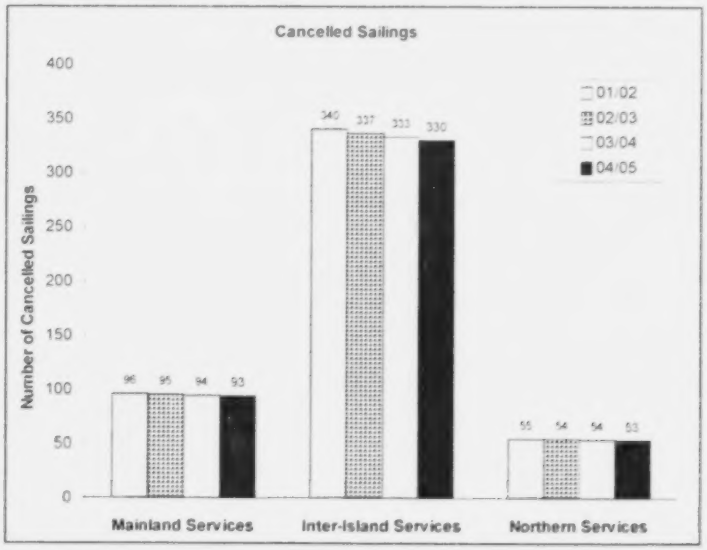
This measures the number of times during the period that a departure was made where there were vehicles or passengers that remained unloaded at departure; full capacity had already been achieved. This is expressed as a percentage of the total number of departures.

3 Year Projection:

Overloaded sailings should be constant or slightly decline, some additional discretionary sailings are available, but more traffic is being carried on the same ships. A slight improvement is expected by year 3 through expanded reservation take-up once terminal rebuilding is completed.

4. Customer Services Measures

c. Cancelled Sailings



Rationale/Methodology: *To measure the number of cancelled sailings.*

This measures the number of times during the reporting period that a scheduled sailing was cancelled. This is expressed as a percentage of the total number of sailings.

Variance Analysis:

About 78% of all cancelled sailings in Mainland Services and 68% in Inter-Island Services are due to mechanical problems and about 15% due to weather. In Northern Services, about 40% of cancellations are due to mechanical and 50% due to weather.

A new maintenance management program has been introduced which should reduce the number of cancelled sailings. A significant drop in the number of cancelled sailings in the Northern Services is unlikely as cancellations are largely due to weather problems and therefore unpredictable.